

Message Text

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PAGE 01 SANTIA 07955 01 OF 02 272119Z
ACTION COME-00

INFO OCT-01 ARA-14 ISO-00 EB-08 /023 W
-----053043 272156Z /64

R 272014Z SEP 77
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 6628
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY BRASILIA
AMEMBASSY ASUNCION

UNCLAS SECTION 1 OF 2 SANTIAGO 7955

E.O. 11652: N/A
TAGS: BENC, CI
SUBJECT: MAJOR PROJECT: CHILEAN LNG PLANT

REF: 76 SANTIAGO 11291; STATE 218807 (NOTAL)

1. SUMMARY. THERE HAS BEEN NO FORWARD MOVEMENT ON CHILE'S LNG PROJECT SINCE OUR LAST REPORT (SANTIAGO 11291). THERE HAVE BEEN, HOWEVER, SEVERAL FUNDAMENTAL CHANGES IN ITS CONCEPTUALIZATION AS WELL AS AMONG THE PARTICIPANTS. THE MOST IMPORTANT CHANGE IS THAT THE U.S. HAS BEEN SELECTED OVER BRAZIL AND JAPAN AS THE EXCLUSIVE MARKET FOR 100 PERCENT OF PRODUCTION. THE GOC CONTINUES TO NEGOTIATE WITH BOTH POTENTIAL CUSTOMERS AND EQUITY PARTENRSS, BUT THE FIELD HAS NARROWED AND DECISIONS SEEM IMMINENT. FINANCING IS STILL UNCERTAIN AND FEDERAL POWER COMMISSION APPROVAL APPEARS PROBLEMATIC. END SUMMARY.

2. IN ANSWER TO QUESTIONS POSED IN REFTEL:

A) CHILE HAS SETTLED DEFINITELY ON THE UNITED STATES AS THE EXCLUSIVE MARKET FOR 100 PERCENT OF THE LNG PRODUCTION OF THE PROPOSED PLANT. ACCORDING TO EMPRESA NACIONAL DE PETROLEO (ENAP STATE UNCLASSIFIED

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OIL CO.) OFFICIALS, BRAZIL IS NO LONGER BEING CONSIDERED. REPORTEDLY, THHE GOB CONCLUDED THAT THE INFRASTRUCTURAL INVESTMENT AT THEIR END (TERMINAL AND CONDUIT SYSTEM) WAS MORE THAN THEY COULD BEAR AT THIS TIME. THE JAPANESE MARKET HAS ALSO BEEN DROPPED FROM CONSIDERATION APPARENTLY BECAUSE OF THE PROHIBITIVE COST OF LONG DISTANCE TRANSPORTATION. LNG MUST BE TRANSPORTED IN EXPENSIVE, SPECIALIZED SHIPS CAPABLE OF MAIN-

TAINING NEAR ABSOLUTE ZERO TEMPERATURES.

B) AS OF NOW ENAP HAS SIGNED UP NEITHER A CUSTOMER NOR EQUITY PARTNER(S). NEGOTIATIONS ARE IN PROCESS WITH THREE POSSIBLE U.S. IMPORTERS. ENAP WILL NOT SAY WHO THEY ARE DEALING WITH, BUT WE BELIEVE THEY ARE: PACIFIC LIGHTING, AND SOUTHERN NATURAL GAS. ONLY ONE WILL BE CHOSEN AS PROJECT DEPENDS UPON THE BUYER CONSTRUCTION OF A 300 MILLION DOLLAR RECEPTION AND STORAGE TERMINAL. PLANS ENVISION A "MIXED" EQUITY ENTERPRISE IN CHILE. ENAP AND POSSIBLY SEVERAL LOCALLY HELD, PRIVATE, CHILEAN COMPANIES WOULD HAVE 51 PERCENT AND TWO INTERNATIONAL COMPANIES WOULD SHARE 49 PERCENT. AT THE MOMENT SEVERAL U.S. FIRMS ARE IN THE RUNNING. ATLANTIC RICHFIELD HAS SUBMITTED A LETTER OF INTENTION FOR A 27 PERCENT EQUITY PARTICIPATION. THIS MAKES SENSE IN THAT ARCO HAS RECENTLY CONCLUDED A PETROLEUM EXPLORATION/EXPLOITATION AGREEMENT WITH THE GOC (SEE SANTIAGO 7802). ALSO AIR PRODUCTS, INC., THE FIRM WHICH DEVELOPED THE BASIC ENGINEERING FOR THE LNG PLANT, HAS EXPRESSED AN INTEREST IN A 22 PERCENT EQUITY SHARE.

C) THE STUDIES MENTIONED IN REFTEL ARE NOW COMPLETE. THE DEGOLYER AND MACNAUGHTON STUDY CERTIFIED THAT PROVEN NATURAL GAS RESERVES IN THE MAGALLANES PROVINCE WERE APPROXIMATELY 80 BILLION M3 PLUS 100 BILLION OF ESTIMATED RESERVES. ARTHUR LITTLE CO. UNDERTOOK AN ECONOMIC AND TECHNICAL FEASIBILITY STUDY WHICH CONCLUDED THAT PROJECT WAS VIABLE ON BOTH COUNTS, ESPECIALLY IF A U.S. MARKET COULD BE OBTAINED. FINALLY, AIR PRODUCTS, INC., DEVELOPED UNCLASSIFIED

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THE PRELIMINARY ENGINEERING PLANS FOR THE PLANT AND FRED HARRIS CO. (CANADIAN) HAS DESIGNED A PORT FACILITY. THE RESEARCH HAS BEEN DONE BY TOP QUALITY FIRMS WITH ESTABLISHED INTERNATIONAL REPUTATIONS.

3. THIS IS A VERY EXPENSIVE PROJECT. INCLUDING BOTH ENDS AND ALLOWING FOR INFLATION AND INTEREST IT COULD COST AS MUCH AS ONE BILLION DOLLARS: 325 MILLION PLUS FOR AN LNG PLANT IN CHILE; 300 MILLION FOR A U.S. TERMINAL; 300 MILLION FOR PORT FACILITIES AND SPECIALIZED SHIPS. AS WITH ALL PROJECTS OF THIS MAGNITUDE, DECISIONS WILL BE DELIBERATE AND SLOW IN COMING. THE FINANCING PACKAGE IS STILL UNCERTAIN. AS NOW ENVISIONED IT WOULD BE A MEDLEY OF PAID-IN CAPITAL BY ENAP, LOCAL AND FOREIGN

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UNCLAS SECTION 2 OF 2 SANTIAGO 7955

PARTNERS, AN INTERAMERICAN DEVELOPMENT BANK LOAN,
AN INTERNATIONAL BANK CONSORTIUM, AND SUPPLIER'S CREDIT. SUPPLY
CONTRACTS ARE THE ESSENTIAL COLLATERAL; THEREFORE FINANCING WILL NOT
GEL UNTIL A U.S. IMPORTER IS CONCLUSIVELY SIGNED UP.

4. ENAP OFFICIALS SAY THAT THE TOUGHEST HURDLE THE PROJECT FACES
NOW IS FEDERAL POWER COMMISSION APPROVAL OF A U.S. TERMINAL.
ULTIMATELY, THE CHOSEN U.S. IMPORTER WILL HAVE THE RESPONSIBILITY
OF SEEKING THIS AUTHORIZATION. IN VIEW OF EXPECTED ENVIRONMENTAL
AND/OR PUBLIC SAFETY OBJECTIONS ENAP IS NOT OPTIMISTIC. ENAP CLAIMS
THAT THERE ARE LONG-STANDING PETITIONS BEFORE THE FPC SEEKING
APPROVAL FOR LNG IMPORTS FROM ALGERIA, INDONESIA AND ALASKA.
ALSO, ENAP POINTS TO ONE ALREADY CONSTRUCTED LNG TERMINAL ON
STATEN ISLAND WHICH HAS BEEN REFUSED PERMISSION TO BEGIN OPERATIONS.
FINALLY, THERE APPEARS TO BE STATE AND LOCAL
MISGIVINGS TO OVERCOME.

5. COMMENT. CHILEAN OFFICIAL RESPONSIBLE FOR ALL ASPECTS OF THIS
PROJECT. MUGUEL DURNEY, IS NOW IN THE U.S. ON BUSINESS RE-
LATED TO THIS SUBJECT. HE IS NOT EXPECTED BACK UNTIL OCTOBER 7.
HIS SUBORDINATES ARE UNWILLING TO DIVULGE MORE SPECIFIC DETAILS
THAN THOSE REPORTED ABOVE. EMBASSY WILL SEEK INTERVIEW WITH
DURNEY AS SOON AS HE RETURNS. IN THE MEANWHILE, IF DEPARTMENT
HAS SPECIFIC QUESTIONS PLEASE ADVISE. ALSO, WE WOULD APPRECIATE
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ANY GENERAL INFORMATION ON THE ENVIRONMENTAL ISSUE AND
PROSPECTS FOR FPC APPROVAL.
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